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SENATE FILE 199  
BY SHEARER, FLYNN, HORN,  
CONNOLLY, KIBBIE, FRAISE,  
McCOY, FINK, DELUHERY,  
DVORSKY, BLACK, and GRONSTAL

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act relating to approved equity investments in qualifying  
2 businesses and providing tax credits.

3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 199 WAYS & MEANS

1 Section 1. NEW SECTION. 15E.41 PURPOSE.

2 The purpose of this division is to enhance the quality of  
3 life for citizens of this state by encouraging the creation of  
4 new jobs, industry, products, and wealth through the increased  
5 availability and accessibility to capital, particularly at the  
6 seed and venture capital investment stages.

7 Sec. 2. NEW SECTION. 15E.42 TAX CREDITS.

8 1. For tax years beginning on or after January 1, 2001, a  
9 tax credit shall be allowed against the taxes imposed in  
10 chapter 422, divisions II, III, and V, and in chapter 432, for  
11 losses, as described in section 15E.43, subsection 2, incurred  
12 by a taxpayer in an equity investment approved pursuant to  
13 section 15E.43. An individual may claim the credit of a  
14 partnership, limited liability company, S corporation, estate  
15 or trust electing to have income taxed directly to the  
16 individual. The amount claimed by the individual shall be  
17 based upon the pro rata share of the individual's earnings  
18 from the partnership, limited liability company, S  
19 corporation, estate or trust. Any tax credit in excess of the  
20 taxpayer's liability for the tax year may be credited to the  
21 tax liability for the following three years or until depleted,  
22 whichever is earlier. A tax credit shall not be carried back  
23 to a tax year prior to the tax year in which the taxpayer  
24 redeems the tax credit.

25 2. The maximum tax credit for a qualifying taxpayer shall  
26 not exceed fifty percent of the taxpayer's equity investment  
27 in an approved investment or one hundred thousand dollars,  
28 whichever is less.

29 3. The aggregate amount of tax credits issued under this  
30 section for taxes imposed pursuant to chapter 422, divisions  
31 II, III, and V, and chapter 432 shall not exceed a total of  
32 twenty-five million dollars.

33 4. The department of revenue and finance, in consultation  
34 with the department of economic development, shall develop a  
35 system for registration, authorization, and redemption of tax

1 credits issued by the state under this section. The  
2 department of revenue and finance and the department of  
3 economic development shall adopt any other policies,  
4 procedures, or rules pursuant to chapter 17A necessary for the  
5 administration of this division and of tax credits issued by  
6 the state under this section.

7 Sec. 3. NEW SECTION. 15E.43 APPROVED INVESTMENTS.

8 1. In order for an investment to qualify for a tax credit  
9 under section 15E.42, the investment must be approved by the  
10 department of economic development and be in a qualifying  
11 business. In order to be a qualifying business, the business  
12 must meet all of the following criteria:

13 a. The headquarters of the business is located in this  
14 state.

15 b. The business has been in operation for five years or  
16 less.

17 c. The business has a business plan approved by the  
18 department which details the business's growth strategy, the  
19 management team if applicable, a production or management  
20 plan, a financial plan, and other standard elements of a  
21 business plan.

22 d. The business has an owner who has successfully  
23 completed a recognized entrepreneurial venture development  
24 curriculum or has three years of relevant business experience.

25 e. The business is not a business engaged primarily in  
26 retail sales, the provision of health care or other  
27 professional services, or the distribution of products or  
28 services.

29 2. a. A tax credit authorized under section 15E.42 may be  
30 redeemed for losses of the taxpayer's equity investment  
31 realized upon either of the following, whichever occurs first:

32 (1) Upon the bankruptcy of the business.

33 (2) Upon transfer of ownership of substantially all of the  
34 qualifying business after a minimum of three years from the  
35 date of the qualifying equity investment that, at the time of

1 the transfer, would demonstrate a documented loss in the value  
2 of the equity investment.

3 b. The tax credit shall not be redeemed later than ten  
4 years from the date of the qualifying investment.

5 Sec. 4. NEW SECTION. 15E.44 REPORTS.

6 By December 15 of each year, the department of economic  
7 development, in consultation with the department of revenue  
8 and finance, shall submit a report to the governor and the  
9 general assembly. The report shall include, but not be  
10 limited to, the anticipated value of any tax credits issued  
11 and the estimated current and anticipated impact the approved  
12 investments have on the state.

13 Sec. 5. NEW SECTION. 422.11C APPROVED INVESTMENT TAX  
14 CREDIT.

15 The taxes imposed under this division, less the credits  
16 allowed under sections 422.12 and 422.12B, shall be reduced by  
17 an approved investment tax credit authorized pursuant to  
18 sections 15E.41 through 15E.44.

19 Sec. 6. Section 422.33, Code 2001, is amended by adding  
20 the following new subsection:

1 NEW SUBSECTION. 11. The taxes imposed under this division  
2 shall be reduced by an approved investment tax credit  
3 authorized pursuant to sections 15E.41 through 15E.44.

4 Sec. 7. Section 422.60, Code 2001, is amended by adding  
5 the following new subsection:

6 NEW SUBSECTION. 4. The taxes imposed under this division  
7 shall be reduced by an approved investment tax credit  
8 authorized pursuant to sections 15E.41 through 15E.44.

9 Sec. 8. NEW SECTION. 432.12A APPROVED INVESTMENT TAX  
10 CREDIT.

The taxes imposed under this chapter shall be reduced by an  
approved investment tax credit authorized pursuant to sections  
15E.41 through 15E.44.

#### EXPLANATION

This bill creates a personal income, corporate income,

1 financial institution franchise, and insurance premium tax  
2 credit which may be claimed by a taxpayer for losses incurred  
3 by the taxpayer in an approved equity investment. The bill  
4 provides that any tax credit in excess of the taxpayer's  
5 liability may be credited to the tax liability for the  
6 following three years or until depleted, whichever is earlier.  
7 The bill provides that the tax credit shall not be carried  
8 back to previous tax years. The bill provides that the  
9 maximum tax credit for a qualifying taxpayer shall not exceed  
10 50 percent of the taxpayer's equity investment in an approved  
11 investment or \$100,000, whichever is less. The bill provides  
12 that the aggregate amount of tax credits issued by the state  
13 shall not exceed a total of \$25 million.

14 The bill provides that in order for an investment to  
15 qualify for a tax credit, the investment must be approved by  
16 the department of economic development and be in a qualifying  
17 business which meets certain criteria. The bill provides that  
18 a tax credit may be redeemed for losses of the taxpayer's  
19 equity investment incurred upon the bankruptcy of the business  
20 or upon the transfer of ownership of substantially all of the  
21 qualifying business after a minimum of three years from the  
22 date of the qualifying equity investment. The bill provides  
23 that the tax credit shall not be redeemed later than 10 years  
24 from the date of the qualifying investment.

25 The bill provides that, by December 15 of each year, the  
26 department of economic development, in consultation with the  
27 department of revenue and finance, shall submit a report to  
28 the governor and the general assembly relating to the  
29 anticipated value of any tax credits issued and the estimated  
30 current and anticipated impact the approved investments have  
31 on the state.

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